UNITED STEELWORKERS
USW
UNITY AND STRENGTH FOR WORKERS

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VIA EMAIL: tax.reform@mail.house.gov

Congressman Devin Nunes
Chair, International Tax Reform Working Group
U.S. House Ways and Means Committee

Congressman Earl Blumenauer
Vice Chair, International Tax Reform Working Group
U.S. House Ways and Means Committee

Re: Comments: International Tax Reform Working Group

Dear International Tax Reform Working Group:

These comments are submitted on behalf of the 1.2 million active and retired members of the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union (United Steelworkers). We appreciate the opportunity to submit our views on how to reform the international tax provisions of the federal corporate income tax code in a way that creates the greatest growth in manufacturing and manufacturing jobs in the United States and discourages the offshoring of manufacturing production and jobs.

As a union, we care deeply about the future of the nation's manufacturing sector: the United Steelworkers has active members working in almost every area of manufacturing and mining throughout the United States. We produce goods such as steel and specialty steel, paper, wood products, cement, concrete, chemicals, pharmaceuticals, wind turbines, tires, glass, aluminum, silicon metal, titanium billets, rubber extrusions, electrical equipment and various parts used in a variety of finished goods like automobiles and appliances. Our members also work in various forging operations processing materials into finished components, such as taking titanium billets and forging them into finished aircraft turbine engine components. In mining, our members mine iron ore, copper, zinc and nickel, which get incorporated into intermediate and finished goods. In a nutshell, the United Steelworkers is at the heart and soul of manufacturing.

We view tax reform as a worthwhile goal as long as it meets our goal of achieving a robust and growing manufacturing sector by structuring the corporate tax code – including international tax provisions -- to strongly and consistently encourage domestic manufacturing jobs and production, while sufficiently discouraging the movement of jobs and production overseas. Over the last decade, U.S. manufacturing has suffered disproportionately when compared to other economic sectors, with over 5.5 million manufacturing jobs lost along with the loss of 55,000 manufacturing facilities. Meanwhile, a greater and greater amount of manufacturing jobs and production have been offshored. We have seen our large multinational companies during the last decade cut their workforces in the U.S. by a staggering 2.9 million, while simultaneously creating 2.4 million jobs overseas, according to data by the U.S. Department of Commerce. We believe that a great deal of offshoring of manufacturing jobs and production has been the direct result of inappropriate tax policies. Consequently, we are willing to look at any proposal that holistically promotes manufacturing jobs and production in the United States to reverse this deeply disturbing exodus and want to eliminate tax incentives that encourage offshoring of production and jobs.

The manufacturing sector has always punched well above its weight in the U.S. economy by supporting higher wage jobs with good benefits that provide a middle class standard of living. It is also a technology-intensive sector, for example, in the clean energy area. Manufacturing companies generally hold more patents than other sectors of the economy and engage in over two thirds of the R&D spent in the private sector in the U.S. and employ the majority of engineers and scientists in the private sector. "Spill-over" effects are well-known; investment in new production capacity and the proximity to the manufacturing process promote positive effects across firms and industries leading to new ideas, capabilities and technologies that all mesh to create innovation and economy-wide growth. Likewise, manufacturing creates a large multiplier effect, generating more indirect jobs than other sectors. Ensuring the tax code encourages and accelerates domestic manufacturing, therefore, will boost the economy and help to provide a middle class standard of living for millions of Americans still without full-time work and millions of families still trying to make a living on relatively stagnant wages.

We believe, therefore, that any approach to reforming the nation's corporate tax code and international tax provisions must be designed to promote innovation, production and job creation in the U.S. and should eliminate preferences that may encourage or enhance these activities offshore. U.S. taxpayers want -- and deserve – their hard-earned tax dollars to be used to support employment of fellow Americans here at home. Currently, the tax code and international tax provisions have far too much bias encouraging offshoring which should be eliminated in any reform going forward.

TAX INCENTIVES SHOULD NOT ENCOURAGE OFFSHORING OF MANUFACTURING AND MANUFACTURING JOBS

<u>End Tax Deferral of Profits Earned Offshore</u> – The current tax system (termed "worldwide") is designed to require the payment of taxes by U.S. multinational companies who have foreign subsidiaries that earn profits from overseas operations. However, a huge tax loophole exists so that little, if any, taxes need actually be paid to the U.S. on that income. Instead, U.S. multinationals -- at their discretion -- can defer payment of taxes on income earned by their foreign subsidiaries overseas until such time as that income is

"repatriated" to the parent company in the U.S. (meanwhile permitting an annual tax credit for foreign taxes paid regardless). U.S. multinationals, consequently, effectively reduce their tax rate in the U.S., often dramatically and potentially forever, as there is no time limit on deferral – the choice lies with the company.

With such a distortive tax loophole in place, multinationals are given a powerful incentive to offshore manufacturing, technological innovation and jobs. And that is precisely what has been happening. Profits have accumulated offshore at an accelerated rate – standing now at over $1.4 trillion -- since the "tax armistice" of 2004 (a one-time repatriation allowed at a very low tax rate to entice repatriation with no discernible job gains or investment in the U.S. thereafter). Meanwhile, during the same time period, as noted above, we have seen our large multinationals cut their workforces in the U.S. by a staggering 2.9 million, while simultaneously creating 2.4 million jobs overseas. Stated differently, the deferral tax loophole causes over-investment abroad and under-investment at home and has been a key driver behind the decline in jobs and production in the U.S.

For American taxpayers and for the overall U.S. economy, this is a lose-lose situation; we lose jobs, production and innovative capability, and the opportunity to capture future growth-drivers (while potentially advantaging foreign competitors). On top of that the nation loses sorely-needed revenues that could be used to strengthen our domestic economy. Deferral must be eliminated; American taxpayers do not want their hard-earned dollars being used to encourage the further hollowing out of American manufacturing and loss of jobs to the detriment of the nation and to the sole advantage of multinationals.

<u>End Deduction for Moving Operations Offshore</u> -- Currently companies are allowed to deduct expenses associated with moving manufacturing operations overseas reducing the taxes paid in the U.S. This deduction is another distortive tax loophole that must be eliminated entirely, as it provides a perverse incentive to move production and jobs offshore and does nothing to promote investment and job creation in the U.S. Taxpayer dollars should not be used to encourage offshoring of jobs and production.

<u>Provide Deduction for Moving Operations *Back* to U.S.</u> – Corporate tax reform should encourage investment in production and job creation in the U.S. A 20 percent income tax credit for expenses associated with moving manufacturing operations *back* to the U.S. would do just that. To qualify for this credit, companies should have to reduce or eliminate their manufacturing operations overseas and begin or expand the same manufacturing operations in the U.S.

<u>Reduce/End Incentives for Shifting Income and Assets Overseas</u> – Currently U.S. companies can use accounting rules or aggressive transfer pricing to shift profits offshore, particularly in the case of profits associated with intangible assets like intellectual property. International tax rules should be strengthened by taxing the shift of intangibles to low-tax jurisdictions. Likewise, there have been abuses of the interest deduction that have fueled the offshoring of jobs and production. Part of tax reform should be a review of this deduction with a view to more properly aligning the interests of the American people with

utilizing their hard-earned taxpayer dollars to invest in jobs and manufacturing production in the U.S.

CONCLUSION:

Efforts to reform the corporate tax code and international tax provisions should not occur in a vacuum and without regard to the punishing decline experienced in manufacturing and the coinciding dramatic rise in the offshoring of jobs and production. The cost to the economy has been severe; millions of workers have lost manufacturing jobs, creating hardship, declining living standards and the wiping out of whole communities across the nation. That, in turn, has led to severely diminished tax revenues, eroding our standard of living and leading to worse outcomes for ordinary people in important areas like education, safety and retirement security.

Manufacturing is recognized as the most important engine of future economic growth and job creation; new technologies and advanced manufacturing in clean energy and natural gas, for example, are strong drivers of future growth, but the corporate tax code and international tax provisions need to provide commensurately strong incentives to encourage that growth, innovation and wealth creation in the U.S. and discourage it from moving overseas. In an ever globalizing world, we too must structure our tax code to encourage investment in manufacturing and advanced manufacturing in the U.S., so we also can compete successfully on a global scale and provide our own citizens with a decent standard of living and a safe and secure retirement.

Importantly, Americans want a return to Main Street values and sustainable economic growth (not magical financial bubbles that blow up and destroy wealth and jobs), where we produce real goods and sell them here and around the world. They do not want to continue with the large and growing trade deficits in goods and simply and blindly consume goods made overseas. They want American-made goods because ordinary people understand this is a tried and true way to sustain wealth and ensure shared prosperity where people can be employed earning decent wages.

We urge you in considering any reform of the corporate tax code and international tax provisions to make it a top priority to provide incentives that encourage investment and innovation in manufacturing and advanced manufacturing and job creation in the U.S. This will put the nation on a sound economic footing from which we all can thrive and enjoy the fruits of our labor.

Sincerely,

Leo W. Gerard

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International President

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